



# The Inflation Reduction Act Brings Benefits to Multifamily

By Karyn Sper

We have great news for anyone looking to retrofit existing multifamily properties with capital improvements in energy efficiency, water efficiency, and/or renewable energy systems with a [Green Rewards](#) Mortgage Loan from Fannie Mae: **greening your property is now more affordable than ever!** With \$369 billion in funding, the new Inflation Reduction Act (IRA) of 2022 marks the single largest investment in climate and energy in American history, and you can use these incentives for projects at your multifamily properties.

## Framework

For multifamily buildings, the IRA includes tax credits, tax deductions, and rebates to help offset the cost of building retrofits, particularly for electrification of heating and hot water systems. Incentives can differ based on whether a heating or hot water system is centralized or in-unit, as some rebates are offered on a per-equipment basis. Additionally, affordable properties may be eligible for even higher rebate amounts.

## The IRA in Action

Fannie Mae worked with our consulting partner, Bright Power, to develop case studies to show how Borrowers can potentially **reduce electrification project costs up to 84%** by leveraging these incentives.\* For illustration, these case studies use the maximum value allowed per the IRA. States have been charged with allocating the rebate incentives offered via the IRA. State-specific guidance on the IRA rebate programs is expected to be released in late 2023 or early 2024.

### Case Study 1 – Central Heating and Hot Water Systems

Property A is a 100-unit, 100,000 square foot market rate property with central heating and hot water systems. The property owner wants to install a central heat pump heating system and hot water system for a total of \$1.3 million. Through the IRA, the Borrower can take advantage of a \$50,000 tax credit, a \$20,000 tax deduction, and a \$4,000 per unit through the Home Efficiency Rebate program to reduce their total net project costs to \$830,000 – saving 36%.

Central Heat and Hot Water Project		
Heat Pump Heating		\$800,000
Heat Pump Hot Water		\$500,000
<b>Total Project Cost</b>		<b>\$1.3 million</b>
IRA Benefits	Market Rate	Affordable
IRA Tax Credit	\$50,000	\$50,000
IRA Tax Deduction**	\$20,000	\$20,000
Home Efficiency Rebate	\$400,000	\$800,000
<b>Total IRA Benefits</b>	<b>\$470,000</b>	<b>\$870,000</b>
<b>Net Project Savings</b>	<b>36%</b>	<b>67%</b>

If Property A is an affordable property, the Borrower could take advantage of the same tax credit and tax deduction and the Home Efficiency Rebate doubles to \$8,000 per unit – bringing their total net project costs to \$430,000 and saving 67%.

## Case Study 2 – In-Unit Heating and Hot Water Systems

Property B is a 100-unit, 100,000 square foot market rate property with in-unit heating and hot water. The property owner wants to install heat pump heating and hot water in each unit for a total of \$1.25 million. Through the IRA, the Borrower can take advantage of the same \$50,000 tax credit, a \$20,000 tax deduction, and a \$400,000 rebate through the Home Efficiency Rebate program to reduce their total net project costs to \$780,000 – saving 38%.

In-Unit Heat and Hot Water Project		
Heat Pump Heating		\$800,000
Heat Pump Hot Water		\$450,000
<b>Total Project Cost</b>		<b>\$1.25 million</b>
IRA Benefits	Market Rate	Affordable
IRA Tax Credit	\$50,000	\$50,000
IRA Tax Deduction**	\$20,000	\$20,000
Home Efficiency Rebate	\$400,000	-
Home Electrification Rebate	-	\$975,000
<b>Total IRA Benefits</b>	<b>\$470,000</b>	<b>\$1,045,000</b>
<b>Net Project Savings</b>	<b>38%</b>	<b>84%</b>

If Property A is an affordable property, the Borrower could take advantage of the same tax credit and tax deduction and receive an even larger Home Electrification Rebate of \$975,000 – bringing their total net project costs to \$205,000 and saving 84%.

## Watch this Space

While the federal deployment plan for the IRA funds is still being developed, Fannie Mae is working to develop guidance for leveraging these incentives and rebates with specific Green Rewards projects as additional information is released.

The IRA is a great way to receive additional benefits for making energy efficiency improvements through Green Rewards. In addition to the IRA, efficiency incentives may also be offered through local programs. Check out our white paper [Greater Savings, Lower Costs: Enhancing Green Rewards with Utility Incentive Programs](#) for more examples of how to leverage efficiency incentives and save money.

\* Case studies and policy analysis completed by Bright Power. Opinions, analyses, estimates, and other views expressed by Bright Power are its own and do not necessarily represent the views of Fannie Mae or its management.

\*\* The value for the 179D tax deduction refers to the estimated reduction in taxes; the value of the deduction (i.e., reduction in taxable income) is much higher.